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No. 89-1552

IN THE

Supreme Court of The United States

OCTOBER TERM 1989

THE CLAUSEN COMPANY,

Petitioner,

v.

DYNATRON/BONDO CORPORATION,

Respondent.

SUPPLEMENTAL APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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NOT FOR PUBLICATION

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

DYNATRON/BONDO CORPORATION, *Plaintiff,*	Civil Action No. 87-362
v.	**OPINION**
THE CLAUSEN COMPANY, *Defendant.*	

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BISSELL, *District Judge*

Presently before the Court are the Clausen Company (Clausen's) motion for summary judgment on Count One of the complaint which alleges patent infringement, and Dynatron/Bondo Corporation's (Dynatron's) appeal from the bankruptcy court's order dated March 28, 1988, granting Clausen summary judgment on the proof of claims action, Case No. 87-0227TW. The Court need not reiterate the statement of facts and procedural posture of this case which have been set forth in two recent opinions.

1. Clausen's Summary Judgment Motion on Count One (Patent Infringement)

This motion, originally returnable on March 28, 1988, was adjourned pending a decision by this Court on Dynatron's appeal from the bankruptcy court's decision granting Clausen summary judgment on Count Two of the complaint. Summary judgment on Count Two was affirmed by the order and opinion of this Court dated November 30, 1988.

In support of the present motion on Count One, Clausen contends that the finding of patent misuse in Count Two triggers the principle of collateral estoppel which mandates preclusion of Dynatron's patent infringement claim on the grounds of misuse. Clausen argues that "[t]he proper remedy for patent misuse is dismissal of the patent suit until the patent misuse [has] been fully abandoned and the consequences of the misuse [have] been fully dissipated." (Clausen's Reply Letter-Br, March 22, 198 at 4). Clausen further contends that even if Dynatron could establish dissipation and purging of the effects of patent misuse, the present claim for patent infringement must be dismissed, leaving Clausen only with the opportunity to file a second claim for patent infringement. (Tr., March 28, 1988, at 18).

Dynatron argues that judgment on Count Two has no preclusive effect on the patent infringement count because "Judge Stripp expressly declined to address the factual and

legal issue of any purge of the patent misuse . . . ." (Dynatron's Letter, Jan. 3, 1989 at 1, citing 6 J.A. 1068). Dynatron urges that on the patent infringement claim, there are remaining "issues of fact as to the date on which any misuse was purged, the effect of any misuse, and the dissipation of any such effects." *Id.* at 3.

DISCUSSION

"Collateral estoppel, . . . has the dual purpose of protecting litigants from the burden of relitigating an identical issue with the same party or his privy and of promoting judicial economy by preventing needless litigation." *Parklane Hosiery Co.* v. *Shore*, 439 U.S. 322, 326 (1979).

In order for the doctrine of collateral estoppel to be applied this Court must find that:

1. the party to be estopped must have been a party or in privity with a party to the prior action;

2. the issues to be estopped must be the same as the issues determined in the prior action;

3. the issues must have been actually litigated and necessary to the prior judgment; and

4. application of collateral estoppel will not be unfair because:

   (a) the party to be estopped had little incentive to vigorously litigate the first action;

   (b) the first judgment is inconsistent with other judgments on the issue to be estopped;

   (c) the second action affords procedural opportunities unavailable in the first action (or, more generally speaking, that the party to be estopped had a full and fair opportunity to litigate its claims in the first action); or

> (d) application of collateral estoppel would not otherwise be unfair to the defendants. *See Parklane Hosiery Co.* v. *Shore*, 439 U.S. 322, 99 S. Ct. 645, 58 L. Ed. 2d 552 (1979).

Glictronox Corp. v. *American Telephone & Telegraph Co.*, 603 F. Supp. 552, 563 (D.N.J. 1984). It is clear that the issue of patent misuse presently before the Court is the identical issue that was the basis for the bankruptcy court's finding of summary judgment on Count Two. Accordingly, the Court deems it improper to consider evidence of the parties "understanding of the settlement agreement" in order to redecide the question of whether Dynatron engaged in patent misuse. (*See* Dynatron's Letter of Jan. 3, 1989 at 2). This Court has already determined that the bankruptcy court was correct in not considering new evidence of intent which was not timely filed. (*See* Op. of Nov. 30, 1988 at 8-16).

However, the issue of whether or not Dynatron has purged its misuse was not addressed by the bankruptcy court. (Joint App., Vol. 6 at 1068; Tr. March 7, 1988 Hrg. of Dynatron's Motion to Reopen). Dynatron correctly argues that once the misuse has been abandoned and the consequences of that practice have been fully dissipated, a patent owner can regain the right to enforce a patent. *United States Gypsum Co.* v. *National Gypsum Co.*, 352 U.S. 457, 465, *reh'g denied*, 353 U.S. 932 (1957); *Morton Salt Co.* v. *G.S. Suppinger Co.*, 314 U.S. 488, 493 (1942). Dynatron contends that the letter dated January 27, 1988 from Mr. Machamer, President of Dynatron, to Mr. Peck, President of Clausen, purges the disputed language in the settlement agreement. The letter states in pertinent part:

> As you know, Dynatron/Bondo Corporation is currently engaged in a patent dispute with The Clausen Company concerning the issue of whether or not the five gallon air operated lug lid putty dispenser sold by Clausen infringes the Dynatron/Bondo Reissue Patent 31,934. Suit was initially brought back in

1976 for infringement of the original patent 3,957,176 and we settled the matter by signing a Settlement Agreement dated January 15, 1977.

You will recall that after the date of signing the Settlement Agreement Clausen began the production and sale of another type of five gallon air operated putty dispenser that had a ring clamp instead of a lid with lugs to hold the lid to the pail. I acknowledged to you by phone and in person that this ring type cover, in our opinion, after consulting with legal counsel, did not infringe the Dynatron/Bondo patent and you continued shipping these units for a number of years. Clausen later changed back to the old lug lid dispenser which we believe infringes our patent. Our second suit was brought against Clausen because of the sale by Clausen of the lug lid dispenser which infringes our patent.

When Clausen resumed the sale of the five gallon air operated lug lid dispenser and filed Chapter 11 bankruptcy proceedings, Dynatron/Bondo filed a claim in bankruptcy which was based upon the Settlement Agreement. The Clausen attorneys filed a motion for summary judgment which asserted that the language of the Settlement Agreement was a misuse of the patent. The Bankruptcy Court agreed with Clausen's attorneys and granted the motion.

It has never been my intent to extend the coverage of the patent beyond the coverage legally granted by the claims of the patent. This letter is to assure Clausen that Dynatron/Bondo has not interpreted and will not interpret the Settlement Agreement as covering any dispenser sold by Clausen that does not infringe the claims of the patent.

In view of the Memorandum Opinion and Order of Judge Stripp filed January 22, 1988 in the Clausen

> bankruptcy proceeding, *we hereby formally advise you that Dynatron/Bondo Corporation hereby unequivocally repudiates, waives and disclaims in their entirety the clauses "similar to the current Clausen five gallon air operated dispenser or" in Paragraphs 2(a) and 2(c) of the Settlement Agreement of January 15, 1977.*
>
> *Similarly, to the extent that our attorney's letter to you dated December 8, 1986 or any other communication to Clausen from or on behalf of Dynatron/Bondo could have been interpreted to relate to putty dispensers other than those covered by our patent Re. 31,934, we hereby unequivocally repudiate, waive and disclaim any demand of any kind that Clausen terminate the production, use or sale of any dispensers other than dispensers covered by said patent.*

(Joint App., Vol. 3 at 444-46) (emphasis added).

Clausen argues that once misuse is found dismissal of the patent infringement count is appropriate and suit may be reinstituted once the misuse is purged. In support of this proposition, Clausen relies on *Steward* v. *Mo-Trim, Inc.*, 192 U.S.P.Q. 410 (S.D. Ohio 1975), in which the court noted that "[o]nce the misuse has been purged, . . . , suit may again be brought." 192 U.S.P.Q. at 412. In *Steward*, the court found that plaintiff's misuse was not purged where plaintiff was still bringing suit to enforce the anti-competitive clause.

However, in *Park-In Theatres* v. *Paramount-Richard*, 90 F. Supp. 730 (D. Del.), *aff'd*, 185 F.2d 407 (3d Cir. 1950), *cert. denied*, 341 U.S. 950 (1951), the court recognized that a finding of misuse does not necessarily end a court's inquiry. Because a patent holder is entitled to enforce a valid patent after purging misuse, where a party raises the issue of purge, consideration must be given to whether or not a purge has been effected. *Id.* at 735. In *Park-In Theatres*, the court noted

that plaintiff had not amended its complaint to include facts relating to the purge. Nevertheless, the court found that

> . . . the affidavits filed by both sides indicate, at the least, that there is an issue as to the facts relating to the question of the cessation of the patent misuse and the dissipation of its consequences, if any. While it may be true, as is argued by defendants, that there is no clear and positive showing by the plaintiff of the dissipation of the possible consequences of the patent misuse, I am of the opinion that the granting of the motion for summary judgment with respect to this cause of action in the face of the existence of an issue of fact affecting the right of the plaintiff to maintain and prosecute its patent infringement suit is not permitted under Rule 56 . . . and summary judgment cannot, therefore be granted.

90 F. Supp. at 736.

Similarly, in *Metallurgical International* v. *Kawecki, Industries*, 171 U.S.P.Q. 348 (E.D. Pa. 1971), the court denied defendant's motion for summary judgment which attempted to preclude plaintiff from enforcing its patent due to misuse. The court stated:

> Although it is true that one who misuses a patent must demonstrate that the misuse has been purged before his patent again becomes enforceable, defendant's contention that plaintiff must allege facts which affirmatively demonstrate that the misuse has been purged in order to avoid summary judgment appears to require too much.

171 U.S.P.Q. at 351 (citations omitted).

A critical factor in the court's denial of summary judgment in *Metallurgical* was plaintiff's allegation that it agreed unconditionally to waive and disclaim the offensive contractual language. Additionally, the court deemed summary judgment to be inappropriate considering "the policy against

piecemeal litigation of patent cases, and the tendency of courts to screen carefully the attempt of an alleged infringer to escape accountability by asserting as a defense another's wrong, . . . " 6 Moore, Federal Practice ¶ 56.17[44] nn. 58, 59." *Id.* at 351.

In *Sylvania Industrial Corp.* v. *Visking Corp.*, 132 F.2d 947, 958 (4th Cir. 1942), *reh'g granted*, 319 U.S. 777 (1943), the defendant argued, as does Clausen, that the proper procedure once misuse is found is for the patent infringement case to be dismissed and a new action brought once the effects of misuse are fully dissipated. Despite this argument, the court in *Sylvania* held that the district court did not abuse its discretion by not requiring plaintiff to institute a new suit when the lower court was satisfied upon plaintiff's filing of supplemental pleadings that the misuse had been purged. Here, the Court cannot find that the misuse has been purged and there is nothing before the Court addressing the dissipation of any effects of the misuse. However, in light of Dynatron's letter of January 27, 1988 whereby it agrees to unconditionally waive and disclaim the anti-competitive provision of the settlement agreement, the Court finds that there are questions of fact regarding purge which would effect Dynatron's right to resurrect enforcement of its patent. These questions of fact preclude granting Clausen's motion for summary judgment. *See* 6 Moore's *Federal Practice* ¶ 56.17[44] nn. 60, 61.

2. Appeal of Bankruptcy Court's Award of Summary Judgment on 87-0227TW (Proof of Claims)

Proof of claims was filed in the bankruptcy court by Dynatron in 1985 for the purpose of seeking damages and for injunctive relief for Clausen's alleged breach of settlement agreement and for patent infringement. In 1987, Clausen filed a complaint to dismiss the proof of claims and Dynatron counterclaimed for breach of the settlement agreement and patent infringement. This action was docketed as 87-0227TW.

Clausen filed a motion for summary judgment on 87-0227 based on the *res judicata* effects of the bankruptcy court's January 22, 1988 decision that Dynatron was guilty of patent misuse and that Clausen was entitled to summary judgment on Count Two of the Complaint. (87-0915TS).

At oral argument on March 28, 1988, the bankruptcy judge found that the parties and the issues to both actions were identical with the exception that Clausen had not affirmatively pled the defense of patent misuse in 87-0227 whereas it had done so in 87-0915. The bankruptcy judge granted Clausen summary judgment suggesting that to require Clausen to first replead and to assert the misuse defense would be to engage in wasteful "hypertechnicality." (Joint App., Vol. 6 at 1081).

Inasmuch as this Court is called upon to review a conclusion of law by the bankruptcy court, an independent determination of the applicable law must be undertaken. *Matter of Hammons*, 614 F.2d 399, 401 (5th Cir. 1980); *In re Testmetges*, 47, Bankr. 385, 388 (E.D.N.Y. 1984).

In support of this appeal, Dynatron contends that evidence produced before and after the motion for summary judgment in 87-0915 created genuine issues of material fact regarding the meaning of the settlement agreement which should have precluded the granting of summary judgment in 87-0227 on *res judicata* grounds. (Appellant's Br. at 41-42).

The Court agrees with the bankruptcy court's finding that the issue of patent misuse in 87-0227 was identical to that which was adjudicated in the previous motion. As this Court stated in its November 1988 opinion, if Dynatron was unable for any reason to procure proofs in a timely fashion in order to oppose Clausen's motion for summary judgment, it was encumbent upon it to notify the Court. *See* Fed. R. Civ. P. 56(f). Furthermore, if Clausen resisted Dynatron's requests for discovery which was necessary to oppose the motion, Dynatron should have utilized the remedy afforded to it by Fed. R. Civ. P. 37. The bankruptcy court correctly

refused to give Dynatron a "second bite" at opposing summary judgment on the issue of patent misuse.

Dynatron also argues that summary judgment was improper because Clausen did not insert misuse in the pleadings. Dynatron cites the following language from Fed. R. Civ. P. 56(a): "A party seeking to recover upon a claim, counterclaim or crossclaim or to obtain a declaratory judgment may . . . move . . . for summary judgment . . . " Dynatron cites case law which states that pleading requirements cannot be relaxed when affirmative relief is sought. *See Atlas Chemical Industries, Inc.* v. *Moraine Products*, 509 F.2d 1, 7 (6th Cir. 1974). In *Atlas*, the court cited the following passage from Moore's *Federal Practice*:

> [T]he function of pleadings under the Federal Rules is to give *fair notice* of the claim asserted so as to enable the adverse party to answer and prepare for trial, to allow for the application of the doctrine of res judicata, and to show the type of case brought, . . . so that it may be assigned to the proper form of trial. 2A Moore's Federal Practice ¶8.13 at 1695.

Here, it cannot be said that Dynatron did not have notice and opportunity to address this issue when it was the subject of the first summary judgment motion and it was fully briefed in preparation for the second motion. The bankruptcy judge's decision in this pleading question was correct.

Dynatron further contends that summary judgement in 87-0227 was improper because at the time it was granted no written order had been signed in adversary 87-0915. A discussion on this matter took place at the conclusion of oral argument on the latter summary judgment motion where it was brought to light that no order had been signed on the earlier motion. However, Judge Stripp requested that a form of order for both motions be submitted to him. It appears that the order on 87-0915 was signed at least simultaneously if not before the order on 87-0227.

Additionally, Dynatron argues that its claims for breach of settlement agreement and patent infringement in 87-0227 were claims for post-confirmation relief. Accordingly, Dynatron argues these claims were not core proceedings or related proceedings and that the bankruptcy court had no jurisdiction to address these matters. (Dynatron's Jan. 3, 1989 Letter-Br. at 3-4). Dynatron cites *In re Pan American School of Travel Inc.*, 225 U.S.P.Q. 152 (Bankr. S.D.N.Y. 1985), where the bankruptcy court found that it had no subject matter jurisdiction pursuant to 28 U.S.C. § 157 to address a claim for injunctive relief to prevent a post-confirmation debtor from infringing the claimant's trademark. The court stated that " . . . with the debtor having confirmed its plan, there is no need for bankruptcy court involvement since the action seeks only to bar future conduct in the post-bankruptcy period." 225 U.S.P.Q. at 154. Although the court recognized that the injunctive relief would effect the debtor's freedom of action, the court emphasized that such relief would not impact handling and administration of the estate. *Id.*

Pursuant to 28 U.S.C. § 157, a bankruptcy court may hear and determine all cases under Title 11, core proceedings under Title 11, and all cases related thereto. *See* 28 U.S.C. § 1471(b) (attached). The Third Circuit Court in *Pacor Inc.* v. *Higgins,* 743 F.2d 984 (3d Cir. 1984), enunciated the test for determining whether a civil proceeding is related to bankruptcy as

> whether *the outcome of that proceeding could conceivably have any effect on the estate being administered in bankruptcy.* An action is related to bankruptcy if the outcome could alter the debtor's rights, liabilities, options, or freedom of action (either positively or negatively) and which in any way impacts upon the handling and administration of the bankrupt estate.

743 F.2d at 994 (emphasis in original).

Based on the information before this Court concerning the timing of the confirmation proceedings and Dynatron's filing of its proof of claims, this Court cannot conclude that 87-0227 was solely a post-confirmation proceeding which "could [not] conceivably have any effect on the" administration of Clausen's estate. *Id.* Clausen's action to dismiss the proof of claim would certainly have impacted on the administration of its estate. The bankruptcy court had jurisdiction in this matter.

Finally, Dynatron argues that there can be no *res judicata* effect from the first summary judgment where the issue of any purge of the patent misuse was never addressed. Dynatron argued before the bankruptcy court in opposition to summary judgment on 87-0227 that the January 27, 1988 letter (*see* pages 5 and 6 of this opinion) from Dynatron's president to Clausen's president was evidence of the purge of misuse. The issue of purge was raised in Dynatron's brief before the bankruptcy judge and was not mentioned by him in his brief oral opinion granting summary judgment on the grounds of the *res judicata* effect of his decisions in Case No. 87-0915TS. Ordinarily this might be troublesome; however, the purge issue was clearly not ripe for consideration on March 28, 1988, merely two months after the January 27 letter. Accordingly the bankruptcy court decision is correct as to the issues ripe and properly before it ten months ago.

For the reasons discussed above, Dynatron's appeal is denied and the decision of the bankruptcy court is affirmed. This disposition of Case No. 87-0227TW, however, as with that of its companion Case No. 87-0915TS, has no bearing whatsoever upon Dynatron's right to litigate in this United States District Court the issue of its alleged purging of patent misuse.

JOHN W. BISSELL
United States District Judge

DATED: January 25, 1989

Respectfully submitted,

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CERTIFICATE OF MAILING

I hereby certify that on this 5th day of April, 1990 a true and correct copy of the foregoing **SUPPLEMENTAL APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT** was mailed by placing the same in the United States Mail, postage prepaid, addressed as follows:

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